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Money, Prices, Credit, and Banking

The Operation of the New Bank Act. By THOMAS CONWAY, JR., and ERNEST M. PATTERSON. (Philadelphia: J. B. Lippincott Company. 1914. Pp. viii, 431. $2.00.)

This is a timely book which will meet the need of a large number of people, especially bankers, who wish to know precisely what the new bank act means and how it will be likely to affect their business.

After a chapter on the defects in our present banking system and another in which the new law is summarized, the authors discuss in detail each feature of the new system, making comparisons with foreign and other proposed systems and describing existing conditions and practices, whenever such procedure throws light upon the meaning and probable operations of the new law. The features treated are grouped under the heads: the regional system; ownership; the federal reserve banks; the control of the new system; the powers and duties of the Federal Reserve Board; rediscounts; foreign acceptances; retiring the national bank notes;

the new reserve bank notes and refunding the bonds; the federal reserve notes; possibility of inflation; open market operations and control of the gold supply; government deposits and the relations of the government to the system; the reserve problem in its various aspects; clearing checks and drafts; mortgage loans on farm lands; and the effects of the system on the country, the reserve city, the central reserve city, and the state banks respectively.

For the most part the authors have kept their own views in the background, on doubtful points quoting opinions pro and con expressed before the congressional committees during the hearings and in the public press. Their attitude in general is favorable and commendatory. Apparently they believe in the law and expect great benefits from it. At the same time they make clear the difficulties involved, notably that of preventing domination of the directorates of the federal reserve banks by the larger member banks, the maintainenance of adequate gold reserves, the prevention of undue disturbance to business as a result of the shifting of reserves, the retirement of the national bank notes, the proper arrangement of the districts, and the treatment of the state banks either inside or outside of the system. On such moot questions as the composition of the Federal Reserve Board, bank ownership, and compulsory subscriptions by national banks, the proper number of districts to establish, the possible effects of the shifting of reserves, the operation of the new clearing system, the effects of the system on the three classes of national banks and on state banks and trust companies, the treatment is full and fair and the conclusions drawn conservative.

To the discussion of the reserve problem seven chapters and 120 pages are devoted. Elaborate calculations are made, based on various suppositions regarding the action the country and reserve city banks may take with reference to the withdrawal of their balances with reserve agents, and the conclusion is drawn that the burden will probably fall on the central reserve cities, especially New York, and that it may prove to be grievous, involving rediscounting on a large scale and probable curtailment of credits. The possible inability of the federal reserve bank in the New York district to grant all the rediscounting accommodations that may be needed is also suggested. The authors show that the periods of greatest stress will be the beginning of the twenty-fifth and the end of the thirty-sixth month after the new system is inaugurated. They sug-

gest that the difficulty involved in the possible curtailment of credits may be met by the shifting of loans from New York and the other central reserve cities to other parts of the country, and that within the period of three years changes in the resources of the banks may be made that will considerably modify the gloomy aspects of the problem. They have laid chief emphasis, however, on the difficulties to be met rather than on the means available for meeting them, and have thus drawn a needlessly gloomy picture.

Regarding the probable attitude of the banks towards rediscounting, the authors are also inclined to be pessimistic, and, from the privilege of accepting bills drawn in connection with our foreign commerce, they do not anticipate so great advantages as many persons have at least hoped for. On the other hand, they take an optimistic view regarding the possibilities of the new clearing system and the danger of inflation. The limitations placed on the open market operations of the federal reserve banks they regard as the chief defect of the measure.

Two points are brought out in this discussion which have so far attracted little or no attention, namely, the absence in the act of any prohibition against the payment of interest on deposits and the question whether bond-secured notes issued by the federal reserve banks would be subject to the tax now levied on national bank notes. In the discussion of the former of these points the advantages that might be derived from the payment of interest are brought out much more clearly than the disadvantages. The bearing of the second question upon the rapidity with which the national bank notes are retired is pointed out, as is also the inadequacy of the provisions of the act relative to this important subject.

The authors' interpretation of the meaning of the act though convincing in most cases is questionable in a few. For example, they seem to assume that the 40 per cent reserve in gold prescribed for federal reserve notes cannot be lowered, on payment of the prescribed tax, without the consent of the Federal Reserve Board and that this board must levy a tax on all such issues. On page 173 they state that the federal reserve banks cannot discount for nor lend to private individuals, while two pages later they clearly show that they can do so provided the form of document used be a bill of exchange. It may also be questioned whether they have not underestimated the power of the federal reserve banks to aid member banks (p. 229).

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